

**Additional Management Actions Are Needed
to Better Process and Safeguard Tax Exempt
and Government Entities Division User Fee
Payments**

August 2001

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DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

INSPECTOR GENERAL
for TAX
ADMINISTRATION

August 22, 2001

MEMORANDUM FOR COMMISSIONER, TAX EXEMPT AND GOVERNMENT
ENTITIES DIVISION

A handwritten signature in cursive script, reading "Pamela J. Gardiner".

FROM: Pamela J. Gardiner
Deputy Inspector General for Audit

SUBJECT: Final Audit Report - Additional Management Actions Are Needed
to Better Process and Safeguard Tax Exempt and Government
Entities Division User Fee Payments

This report presents the results of our review of the effectiveness of the Tax Exempt and Government Entities (TE/GE) Division's efforts to process and safeguard user fee payment information. In summary, we found that additional managerial actions are needed to minimize the risks associated with processing TE/GE Division customers' user fee payments.

Our recommendations will improve the Internal Revenue Service's (IRS) ability to provide quality customer service when these customers submit user fee payments. TE/GE Division management agreed with our recommendations and will initiate actions that will enhance the processing of user fee payments on current and planned automated systems. Management's comments have been incorporated into the report where appropriate, and the full text of their comments is included as an appendix.

Copies of this report are being sent to the IRS managers who are affected by the report's recommendations. Please contact me at (202) 622-6510 if you have any questions or Maurice S. Moody, Assistant Inspector General for Audit (Headquarters Operations and Exempt Organizations Programs), at (202) 622-8500.

**Additional Management Actions Are Needed to Better Process and Safeguard Tax
Exempt and Government Entities Division User Fee Payments**

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Additional Management Actions Are Needed to Better Process and Safeguard Tax Exempt and Government Entities Division User Fee Payments

Executive Summary

Section 10511 of the Revenue Act of 1987¹ provides that the Secretary of the Treasury or his delegate shall establish the payment of user fees for customer requests to the Internal Revenue Service (IRS) for private letter rulings, opinions, determinations, and similar requests. The user fee amount can range from \$80 to \$10,000. During Fiscal Year (FY) 2000, the Tax Exempt and Government Entities (TE/GE) Division processed user fees totaling \$29.6 million at the Cincinnati Submission Processing Center (CSPC).

The Internal Revenue Manual (IRM) requires that a minimum of 90 percent of the day's remittances must be deposited by the next business day. The remaining balance of the day's remittances must be deposited the following day. TE/GE Division procedures provide that any overpayment conditions be resolved as soon as possible.

The overall objective of this audit was to evaluate the effectiveness of the TE/GE Division's efforts to process and safeguard user fee payment information.

Results

Additional managerial actions are needed to minimize the risks associated with processing TE/GE Division customers' user fee payments. Specifically, the TE/GE Division has not ensured that:

- User fee payments are timely deposited and underpayment conditions are adequately resolved.
- Customers who overpay their user fees are provided timely refunds.
- User fee payment data are validated and properly safeguarded.

The TE/GE Division has initiated an EDS² Improvement Project Plan that should improve the quality of processing user fee payment information. However, in the interim, we believe that further actions can be taken to control user fee payment information on the existing Letter Information Network User System³ (LINUS).

¹ Pub. L. No. 100-203, 101 Stat. 1330-382, 1330-446 (1987).

² The Employee Plans (EP) and Exempt Organizations (EO) Determination System (EDS) is the TE/GE Division's inventory system that controls the EP/EO customer applications from receipt to issuance of the determination letter.

³ The LINUS is an automated system used to control user fee payment information provided by customers who submit EP/EO applications.

Additional Management Actions Are Needed to Better Process and Safeguard Tax Exempt and Government Entities Division User Fee Payments

Without taking additional management actions, the TE/GE Division increases its risk that funds may be lost or misappropriated and customers may not be provided quality customer service.

Increased Managerial Attention Is Needed to Enhance the Timely Deposit of User Fee Payments and to Monitor Dishonored Payments of User Fees

Controls do not ensure that all user fee payments are timely deposited

An analysis of deposit actions conducted at the CSPC between January 1 and March 31, 2000, identified 18,661 user fee payments totaling \$6.7 million that were not deposited within 2 business days. We estimate that these late deposit actions cost the government approximately \$6,500 in lost revenue.

Determination specialists⁴ in EP/EO field offices also receive user fee payments and transmit these payments to the CSPC for processing. The actual date the payment is received in the field office is not consistently entered on the LINUS because the determination specialists have not been instructed to report this information to the CSPC. Although we were unable to capture when these payments were actually received by the determination specialists, we were able to perform a computer analysis using the date the cases were closed on the EDS. The computer analysis of the EO determination cases reported as closed on the EDS for FY 2000 identified 359 user fee payments totaling \$101,005 that were deposited on an average of 11 days after the EO determination case was closed. Also, we identified 21 EP user fee payments totaling \$8,375 that were deposited on an average of 42 days after the EP case was closed on the EDS.

The Service Level Agreement (SLA) that the TE/GE Division has established with the Small Business/Self Employed (SB/SE) Division for processing user fee payments at the CSPC adequately defines the performance targets for processing user fee remittances. However, TE/GE Division management has not established an effective process to notify SB/SE Division management when the CSPC processing support actions are performed in an unsatisfactory manner.

⁴ Determination specialists examine applications submitted to the IRS by applicants requesting a determination that the organization receive exempt status or a determination that the employee pension plan complies with Federal laws.

Additional Management Actions Are Needed to Better Process and Safeguard Tax Exempt and Government Entities Division User Fee Payments

Increased managerial actions are needed to ensure customer applications are not processed when personal checks are dishonored

Current practices do not always prevent the issuance of determination letters when applicants do not pay the required user fee amount. Also, efforts to recover the lost revenue have not always been successful.

Our analysis of EDS data identified 10 determination letters that were issued to customers, even though their personal checks were dishonored. All of the applicants were subsequently notified that their checks had not cleared and were requested to resubmit the proper user fee payment amount. However, only one applicant complied with the TE/GE Division's request. We did not identify any additional follow-up action to collect the delinquent user fee amount totaling \$4,050 for the remaining 9 cases.

TE/GE Division management was unaware that determination letters had been issued without the receipt of the required user fee payments because the LINUS does not provide this information. The inability to ascertain when determination letters should be issued provides additional risk that the TE/GE Division will not be properly reimbursed for its determination actions.

Customers Who Overpay Their User Fees Are Not Receiving Timely Refunds

Refund processing standards have not been established

TE/GE Division management has not established specific processing standards that will ensure overpayments of user fees are timely refunded. Our analysis of processing actions for 54 user fee refunds determined that 34 EO user fee overpayments totaling \$11,480 took an average of 178 days to issue the refund after the overpayment condition was identified by the TE/GE Division. An analysis of the remaining 20 EP overpayments, totaling \$5,875, determined that it took an average of 57 days to refund these overpayments. Without additional TE/GE Division managerial actions to expedite the resolution of overpayment conditions, customers will not receive quality service.

Some overpayments of user fees may go undetected

The TE/GE Division has not established the necessary processes to effectively determine whether its customers have paid the correct amount of user fees. As a result, the TE/GE Division may not be able to provide quality customer service when its customers overpay their user fees.

An analysis of customer accounts containing user fee payment data that posted onto the LINUS between January 1, 1998, and June 15, 2000, identified overpayment conditions that should be considered for possible refund action. The analysis identified 1,132 accounts where customers' remittances totaling \$160,724 may have exceeded the required user fee amounts.

Additional Management Actions Are Needed to Better Process and Safeguard Tax Exempt and Government Entities Division User Fee Payments

Our computer match of FY 2000 EDS closed determination case data with the LINUS user fee payment information identified 47 potential overpayment conditions. These cases were referred to TE/GE Division management. They advised us that their ongoing review of these cases has identified 31 overpayment conditions totaling \$2,675 that will be refunded. For the remaining 16 cases, 6 overpayments had been previously refunded, 6 overpayments were not considered overpaid accounts, and the remaining 4 credits will require additional research to resolve the overpayment conditions.

Although our limited analysis of the LINUS identified overpayment conditions, there is no reliable method to identify all overpayment conditions using the LINUS. In our opinion, it is critical that management implement an effective automated process to resolve all overpayment conditions using accurate payment information to verify the overpayment conditions.

Additional Management Actions Are Needed When Processing User Fee Payment Information to Prevent Lost or Misappropriated Remittances

Some user fee payment data posted to the LINUS have not been properly validated

The TE/GE Division has not established an effective process to ensure that all user fee payments are posted to the LINUS using valid Employer Identification Number information. A computer match of FY 2000 closed determination cases on the EDS with LINUS payment information identified 398 cases where a computer match of the payment amounts reflected on LINUS were less than the required user fee amount to issue the determination letter. The inability to effectively identify all user fee payments submitted by TE/GE Division customers may result in additional burden when these customers are requested to verify their payment information.

User fee payments received at field offices are not always properly safeguarded

The TE/GE Division management has not ensured that all user fee payments are adequately safeguarded in secure containers. Six of the 12 TE/GE Division field offices that we contacted store user fee payments in employee folders that are accessible to other employees. Current TE/GE Division procedures do not specifically require that user fee payments be stored in locked containers. Because these remittances are being stored in an unsecured environment when received, the risk of lost or stolen remittances is increased.

User fee payments transmitted to the CSPC from field offices are not properly controlled

Our review identified missing payment data on the transmittals used to forward the payments to the CSPC Manual Deposit Unit. These transmittal documents are widely used by the IRS to monitor the mailing of sensitive materials. Because the TE/GE Division has not established a process for reviewing the transmittal documents, TE/GE

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management was not aware that the transmittal documents were improperly used. The inability to verify the transmission of user fee payment information could result in theft or misapplied payments.

Summary of Recommendations

Additional managerial actions are needed to minimize the risks associated with processing TE/GE Division customers' user fee payments. Specifically, TE/GE Division management should establish procedures for recording payment receive date information on the LINUS that documents when user fee payments are initially received and monitor the timeliness of the deposit actions. TE/GE Division management should also monitor the CSPC's compliance with the SLA deposit provisions and notify SB/SE Division management when the CSPC processing support actions are performed in an unsatisfactory manner. In addition, TE/GE Division management should disallow the processing of applications when personal checks are dishonored. Lastly, the TE/GE Division should ensure that customer overpayments are timely resolved and that all user fee payments are properly safeguarded.

Management's Response: IRS management agreed with the recommendations cited in the report and is taking appropriate corrective actions. The Commissioner, TE/GE Division, will require field office employees who receive user fee payments to document when these payments are initially received. In addition, the customers who submit user fee payments will be instructed to submit the payments directly to the CSPC. Further, the Commissioner, TE/GE Division, will monitor the timeliness of deposit actions taken by the CSPC and advise the CSPC when deposit actions are not timely.

The Commissioner, TE/GE Division, has established responsibility for the identification of dishonored checks and emphasized that determination letters are not to be issued until the customer's check is honored and all user fees are paid. Also, the Commissioner, TE/GE Division, will revise the IRM to include specific processing standards for refunds of excess user fee payments and will ensure compliance with the standards. Additionally, the Commissioner, TE/GE Division, will evaluate all customer overpayments and initiate appropriate actions to resolve the overpayment conditions. Management's complete response to the draft report is included as Appendix V.

Additional Management Actions Are Needed to Better Process and Safeguard Tax Exempt and Government Entities Division User Fee Payments

Objective and Scope

The objective of this audit was to evaluate the effectiveness of the Tax Exempt and Government Entities (TE/GE) Division's efforts to process and safeguard user fee payment information. Specifically, we:

- Evaluated controls to ensure user fee payments are timely and effectively processed.
- Ascertained whether any overpayments were timely identified and resolved.
- Determined whether managerial controls have adequately safeguarded user fee payments.

To accomplish our objective, we analyzed Fiscal Year (FY) 2000 Employee Plans (EP) and Exempt Organizations (EO) Determination System (EDS)¹ data. We also analyzed the FY 2000 Letter Information Network User System (LINUS)² data and held appropriate interviews with TE/GE Division management officials and staff. Our intended purpose for conducting the audit is to improve customer service and enhance the security of sensitive user fee payment information.

This audit was performed at the TE/GE Division Headquarters Office, the Cincinnati Submission Processing Center (CSPC), and the Ohio, Dallas, Los Angeles, Atlanta, Baltimore, and Chicago field offices. The audit was conducted between March 2000 and April 2001 in accordance with *Government Auditing Standards*.

¹ The EDS is the TE/GE Division's inventory system that controls the EP/EO customer applications from receipt to issuance of the determination letter.

² The LINUS is an automated system used to control user fee payment information provided by customers who submit EP/EO applications.

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Details of our audit objective, scope, and methodology are presented in Appendix I. Major contributors to this report are listed in Appendix II.

Background

Section 10511 of the Revenue Act of 1987 provides that the Secretary of the Treasury or his delegate shall establish the payment of user fees for customer requests to the IRS for private letter rulings, opinions, determinations, and similar requests.

During FY 2000, the TE/GE Division processed user fees totaling \$29.6 million.

Section 10511 of the Revenue Act of 1987³ provides that the Secretary of the Treasury or his delegate shall establish the payment of user fees for customer requests to the Internal Revenue Service (IRS) for private letter rulings, opinions, determinations, and similar requests. The user fee amount can range from \$80 to \$10,000.

EP/EO determination letter requests⁴ are forwarded to the CSPC where user fee payments are processed and deposited with a Federal Reserve Bank. The user fee and application information is input into the LINUS and acknowledgement letters are sent to the applicant. Other user fees submitted for private letter rulings and opinions are received at the TE/GE Division Headquarters office. Information associated with these user fees is input into the Headquarters Office EP/EO Inventory System (HQ EP/EO system)⁵ and acknowledgement letters are sent to the applicants. During FY 2000, the TE/GE Division processed user fee payments totaling \$29.6 million at the CSPC.

³ Pub. L. No. 100-203, 101 Stat. 1330-382, 1330-446 (1987).

⁴ Determination letter requests are applications submitted to the IRS by applicants requesting a determination that the organization receive exempt status or a determination that the employee pension plan complies with Federal laws.

⁵ The HQ EP/EO system is a mid-range computer system maintained at the IRS' Martinsburg Computing Center.

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Results

Additional managerial actions are needed to minimize the risks associated with processing TE/GE Division customers' user fee payments.

Additional managerial actions are needed to minimize the risks associated with processing TE/GE Division customers' user fee payments. Specifically, the TE/GE Division has not ensured that:

- User fee payments are timely deposited.
- Customers who overpay their user fees are provided timely refunds.
- User fee payment data are valid and properly safeguarded.

The TE/GE Division has initiated an Improvement Project Plan that should improve the quality of processing user fee payment information. However, in the interim, we believe that further actions can be taken to control user fee payment information on the existing LINUS. Without taking additional management actions, the TE/GE Division increases its risk that funds may be lost or misappropriated and customers may not be provided quality customer service.

Increased Managerial Attention Is Needed to Enhance the Timely Deposit of User Fee Payments and to Monitor Dishonored Payments of User Fees

The current TE/GE Division practices do not ensure that user fee remittances are processed in a timely and effective manner.

The current TE/GE Division practices do not ensure that user fee remittances are processed in a timely and effective manner. Specifically, we determined that:

- User fee processing controls do not ensure that all user fee payments are timely deposited.
- User fee applications are being processed when personal checks are dishonored.

As a result, the TE/GE Division may not be properly reimbursed for its determination actions and customers are not receiving quality customer service.

Additional Management Actions Are Needed to Better Process and Safeguard Tax Exempt and Government Entities Division User Fee Payments

Controls do not ensure that all user fee payments are timely deposited

We estimate that these late deposit actions cost the government approximately \$6,500 in lost revenue.

The Internal Revenue Manual (IRM) requires that a minimum of 90 percent of the day's remittances must be deposited by the next business day. The remaining balance of the day's remittances must be deposited the following day. A computer analysis of deposit actions conducted at the CSPC between January 1 and March 31, 2000, identified 18,661 user fee payments totaling \$6.7 million that were not deposited within 2 business days. The CSPC took an average of 8 days to deposit these payment amounts. We estimate that these late deposit actions cost the government approximately \$6,500 in lost revenue.⁶

In addition to CSPC deposit actions, determination specialists in EP/EO field offices receive other user fee payments and transmit these payments to the CSPC for processing. We were limited in our ability to evaluate the time period required to deposit these user fee payments because information that would show when the payments are initially received by the field offices is not consistently entered on the LINUS.

We were advised that the determination specialists assigned to these field offices have not been provided instructions on capturing the initial receive date information and reporting this information to the CSPC for input on the LINUS. As a result, the CSPC must use the date the payment is received by the CSPC as the user fee payment submission date.

Although we were unable to capture when the payments were initially received by the determination specialists, we were able to perform a computer analysis using the date the case was closed on the EDS. The computer analysis of the EO determination cases reported as

⁶ User fee payments totaling \$6.7 million were divided by 365 days and then multiplied by the number of days that the CSPC exceeded 48 hours. The result was then multiplied by the Monthly Federal Funds Rate.

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The TE/GE Division management has not established an effective process to notify SB/SE Division management when the CSPC processing support actions are performed in an unsatisfactory manner.

closed on the EDS for FY 2000 identified 359 user fee payments totaling \$101,005 that were deposited on an average of 11 days after the EO determination case was closed. The range was 1 to 157 days from the EO case closure date to the deposit date. Also, we identified 21 EP user fee payments totaling \$8,375 that were deposited on an average of 42 days after the EP case was closed on the EDS. The range was 1 to 118 days from the EP case closure date to the deposit date.

Controls were not implemented to effectively monitor the timeliness of all user fee payment deposit actions processed at the CSPC. The Service Level Agreement (SLA) that the TE/GE Division has established with the Small Business/Self Employed (SB/SE) Division for processing user fee payments at the CSPC adequately defines the performance targets for processing user fee remittances. However, TE/GE Division management has not established an effective process to notify SB/SE Division management when the CSPC processing support actions are performed in an unsatisfactory manner. TE/GE Division senior management advised us that they have limited authority to enforce the deposit provisions contained in the SLA because the work is being conducted by non-TE/GE Division employees.

In addition, the TE/GE Division is limited in its ability to evaluate the timeliness of deposit actions because the initial receive date is not consistently recorded on the LINUS. Therefore, TE/GE management does not have the ability to readily identify any late deposit trends and assess the effect of lost revenue resulting from these untimely deposit actions. TE/GE Division management also stated that their quality review actions did not include assessing whether user fee payments were timely processed. In addition, we were advised that the TE/GE Division Quality Assurance organization has not been directed to monitor the timeliness of processing actions when user fee payments are forwarded to the CSPC by the various field offices.

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Recommendations

The Commissioner, TE/GE Division, should:

1. Establish procedures for recording payment receive date information on the LINUS that documents when user fee payments are initially received by field offices other than the CSPC and require the Quality Assurance organization to monitor the timeliness of deposit actions when processing these payments.
2. Monitor the CSPC's compliance with the SLA deposit provisions and establish an effective process to notify SB/SE Division management when the CSPC processing support actions are performed in an unsatisfactory manner.

Management's Response: As part of the redesign of the determinations program computer system (the EDS replacement system), the TE/GE Division intends to change its procedures so that applicants for determinations will submit correspondence and checks directly to the CSPC. In the meantime, the TE/GE Division will require its employees in field offices to inform the CSPC of the date a user fee arrived at the field office, and the TE/GE Division user fee manager will monitor the timeliness of user fee transmissions from the field on a monthly basis.

The TE/GE Division and the SB/SE Division have worked closely together over the past several months to minimize processing support problems. In mid-July 2001, the CSPC implemented a new process for the receipt and processing of user fees. Now, the CSPC removes the user fee from the determination letter application as soon as the application arrives and immediately deposits it. In addition, the CSPC now prepares a daily report that indicates whether checks are deposited timely; a copy of this report is sent to the TE/GE Division. If the report shows that checks are not being deposited timely, the TE/GE Division will raise the issue with the SB/SE Division.

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Current practices do not always prevent the issuance of determination letters when applicants do not pay the required user fee amount.

Increased managerial actions are needed to ensure customer applications are not processed when personal checks are dishonored

Current practices do not always prevent the issuance of determination letters when applicants do not pay the required user fee amount. Also, efforts to recover the lost revenue have not always been successful.

A computer analysis of closed determination cases recorded on the EDS between January 1 and March 31, 2000, identified 10 determination letters that were issued by the TE/GE Division to customers, even though their personal checks were dishonored. All of the applicants were subsequently notified that their checks had not cleared and were requested to resubmit the proper user fee payment amount. However, only one applicant complied with the TE/GE Division's request. We did not identify any additional follow-up action to collect the delinquent user fee amount totaling \$4,050 for the remaining 9 cases.

Existing TE/GE Division procedures require that customer's determination letters be held by determination specialists for 30 days when user fees are paid by a personal check. Management officials advised us that the TE/GE Division Adjustments Unit, upon receipt of the cancelled check from the CSPC Accounting Unit, is instructed to notify the determination specialists that the check was dishonored.

Our analysis of case file information for the 10 determination letter requests showed that the TE/GE Division could have prevented the issuance of 9 of the 10 determination letters if additional actions had been taken to stop the issuance of the determination letter. The CSPC Accounting Unit timely advised the TE/GE Division Adjustments Unit that the checks submitted for the nine determination actions had been dishonored. The TE/GE Adjustments Unit manager advised us that the determination specialists had been timely notified that the nine checks were dishonored. However, the determination specialists did not initiate the necessary actions to stop the issuance of the determination letter

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after being notified that the check was dishonored. We determined that 4 letters were issued without being subjected to the 30-day hold period and 5 letters were held for the required 30-day period.

For the remaining case, the TE/GE Division procedures to hold the determination letter for 30 days would not have prevented its issuance because the CSPC Accounting Unit did not advise the TE/GE Division Adjustments Unit that the check was dishonored during the 30-day hold period. Documentation was not available to determine when the bank notified the CSPC Accounting Unit that the check was dishonored. As a result, we were unable to assess whether the CSPC Accounting Unit timely notified the TE/GE Division Adjustments Unit.

TE/GE Division management was not aware that determination letters had been issued when user fees had not been fully paid because the LINUS does not provide this information. The inability to ascertain when determination letters should be issued provides additional risk that the TE/GE Division will not be properly reimbursed for its determination actions.

TE/GE Division management advised us that the EDS replacement system will include a freeze code to prevent a determination case from being closed once notification is received regarding a dishonored check. Nevertheless, we believe additional interim controls should be established to prevent the issuance of determination letters until the user fees are fully paid.

Recommendations

The Commissioner, TE/GE Division, should:

3. Re-emphasize current procedures which require that customers' personal checks be honored before determination letters are issued.
4. Ensure the LINUS is updated to provide necessary information for identifying determination letters that are issued without the collection of the correct user

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fee amount and ensure that the EDS replacement system will prevent the issuance of determination letters until all user fees are fully paid.

Management's Response: The TE/GE Division has assigned to the Adjustments Unit the responsibility to track cases involving dishonored checks and to work with determination specialists to ensure that payment is received before they issue a determination letter. Also, the TE/GE Division has instructed the CSPC Accounting Branch to timely notify the Adjustments Unit when a check is dishonored. In addition, the TE/GE Division has recently re-emphasized to its employees the policy that determination letters are not to be issued until the customer's check is honored.

The TE/GE Division has reinforced the current requirement that determination specialists not issue determination letters until the applicant has fully paid the user fee. Further, as part of the redesign of the EDS, the TE/GE Division will include a feature to prevent the issuance of determination letters before all user fees are fully paid. As an additional control, the redesigned system will generate a management report that will identify any instances in which a determination letter is issued without payment of the user fee.

Customers Who Overpay Their User Fees Are Not Receiving Timely Refunds

Current processes established for controlling user fee payments do not ensure that customers who overpay their user fees are provided with timely refunds.

Current processes established for controlling user fee payments do not ensure that customers who overpay their user fees are provided with timely refunds.

Specifically, we determined that:

- Processing standards have not been established that will expedite refunds when customers overpay their user fee requirements.
- Some overpayments of user fees may go undetected.

Additional Management Actions Are Needed to Better Process and Safeguard Tax Exempt and Government Entities Division User Fee Payments

TE/GE Division management has not established processing standards for refunding customers' overpayments of user fees and for identifying the overpayment conditions. Without additional TE/GE Division managerial actions to expedite the resolution of overpayment conditions, customers will not receive quality service.

Refund processing standards have not been established

TE/GE Division management has not established specific processing standards that will ensure overpayments of user fees are timely refunded.

TE/GE Division management has not established specific processing standards that will ensure overpayments of user fees are timely refunded. The IRS has developed procedures that provide that a refund may be initiated at any stage of processing where it is recognized that an excessive amount has been paid.

Although the TE/GE Division has adopted a similar requirement that refunds be processed as soon as possible, the TE/GE Division has not developed an effective process to expedite the refund actions. We selected a judgmental sample of user fee refunds that were processed during the first half of FY 2000. Our analysis of processing actions for 54 user fee refunds determined that 34 EO user fee overpayments, totaling \$11,480, took an average of 178 days to issue the refund after the overpayment condition was identified by the TE/GE Division. Analysis of the remaining 20 EP overpayments, totaling \$5,875, determined that it took an average of 57 days to refund these overpayments.

Because the TE/GE Division has not provided appropriate guidance regarding a specific time period for refunding overpayments of user fees, TE/GE management cannot effectively measure the timeliness of refund actions. As a result, TE/GE Division's customers may not be receiving quality service.

Additional Management Actions Are Needed to Better Process and Safeguard Tax Exempt and Government Entities Division User Fee Payments

Recommendation

The Commissioner, TE/GE Division, should:

5. Establish specific processing standards for refunds after the overpayment condition is identified by the TE/GE Division and conduct periodic management reviews to determine whether the processing standards are being met.

Management's Response: The TE/GE Division is currently revising the IRM for determination letter processing, including establishing specific processing standards for refunds. The TE/GE Division will incorporate these standards into its ongoing review process.

Some overpayments of user fees may go undetected

The TE/GE Division has not established the necessary processes to effectively determine whether its customers have paid the correct amount of user fees.

The TE/GE Division has not established the necessary processes to effectively determine whether its customers have paid the correct amount of user fees. As a result, the TE/GE Division may not be able to provide quality customer service when its customers overpay their user fees.

Our analysis identified 1,132 accounts where customers' remittances totaling \$160,724 may have exceeded the required user fee amounts.

A computer analysis of customer accounts containing user fee payment data that posted onto the LINUS between January 1, 1998, and June 15, 2000, identified overpayment conditions that should be considered for possible refund action. The analysis identified 1,132 accounts where customers' remittances totaling \$160,724 may have exceeded the required user fee amounts. We provided the TE/GE Division with a listing of these accounts to facilitate their resolution of the overpayment conditions.

The TE/GE Division assisted us with obtaining the necessary electronic file information needed to perform two computer extracts of user fee payment information to identify possible overpayment conditions. Our computer match of FY 2000 EDS closed determination case data with LINUS user fee payment information identified additional overpayment conditions. All 47 potential overpayment conditions that we identified

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were referred to TE/GE Division management for additional research. They advised us their ongoing review of the cases has identified 31 overpayment conditions totaling \$2,675 that will be refunded. For the remaining 16 cases, 6 overpayments had been previously refunded, 6 overpayments were not considered overpaid accounts, and the remaining 4 overpayments will require additional research to resolve the overpayment conditions.

Standards for internal controls in the Federal government instruct managers to ensure that transactions are properly classified.⁷ TE/GE Division management and staff advised us that the LINUS was never designed to maintain account balance information that would identify when their customers have overpaid their user fees. Consequently, the TE/GE Division must rely on the determination specialists to verify that the proper amount of user fee payments have been submitted.

Although our limited analysis of the LINUS identified some overpayment conditions, there is no reliable method to identify all overpayment conditions using the LINUS.

Although our limited analysis of the LINUS identified some overpayment conditions, there is no reliable method to identify all overpayment conditions using the LINUS. These overpayment conditions are not being resolved because TE/GE Division management has not established an effective process to identify overpayments conditions. As discussed earlier, LINUS data are not complete and some data have not been properly validated. In our opinion, it is critical that management implement an effective automated process to resolve all overpayment conditions using accurate payment data to verify the overpayment conditions.

Recommendation

The Commissioner, TE/GE Division, should:

6. Enhance the LINUS to maintain user fee account information that will identify overpayment

⁷ Federal Managers' Financial Integrity Act of 1982, 31 U.S.C. §§ 1105, 1113, and 3512 (1994 & Supp. IV 1998).

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conditions and initiate actions to timely resolve these overpayments.

Management's Response: The TE/GE Division will complete its analysis of our list of possible overpayments and will make all required adjustments. Further, as part of the redesign of the EDS, the TE/GE Division will address the issue of timely identifying and resolving all potential overpayments. As an additional control, the TE/GE Division will include a feature that will generate management reports identifying potential overpayments.

Additional Management Actions Are Needed When Processing User Fee Payment Information to Prevent Lost or Misappropriated Remittances

The TE/GE Division has not established the necessary controls to ensure that user fee payment information is validated and properly safeguarded.

The TE/GE Division has not established the necessary controls to ensure that user fee payment information is validated and properly safeguarded. The lack of effective controls when processing and posting user fee payments could result in misappropriated or misapplied user fee remittances and additional customer burden.

Specifically, we determined that:

- User fee payment data are posted to the LINUS without being properly validated.
- Controls have not been established to properly safeguard user fee remittances that are processed by the various field offices.
- User fee payment information forwarded to the CSPC is not being properly controlled.

Some user fee payment data posted to the LINUS have not been properly validated

Standards for internal controls in the Federal government instruct managers to ensure that revenues are properly recorded so that accountability of the assets

Additional Management Actions Are Needed to Better Process and Safeguard Tax Exempt and Government Entities Division User Fee Payments

A computer match identified 398 cases where the payment amounts reflected on the LINUS were less than the required user fee amount to issue the determination letter.

may be maintained. The TE/GE Division has not established an effective process to ensure that all user fee payment information is properly recorded on the LINUS because management has elected to rely on determination specialists to manually verify user fee payment information. The inability to effectively identify all user fee payments submitted by TE/GE Division customers may result in additional burden when these customers are requested to verify their payment information.

A computer match of FY 2000 closed determination cases on the EDS with LINUS payment information identified 398 cases where the payment amounts reflected on the LINUS were less than the required user fee amount to issue the determination letter. TE/GE Division management assisted us in obtaining the determination case files for some of the 398 cases. We evaluated the disposition of these user fee payments and identified any payments that may not have been input to the LINUS. Our review of the 398 cases identified the following conditions:

- Three hundred and fifteen user fee payments posted to an Employer Identification Number (EIN) on the LINUS that was different from the EIN on the EDS. Although we could not match the EIN information on the LINUS to that on the EDS, we were able to locate the payments on the LINUS using various matches of taxpayer name information and document locator number information. We were able to locate the minimum payments needed to pay the user fee amount. Currently, the TE/GE Division cannot ensure that all payment information is properly accounted for on the LINUS for these taxpayers because the EIN information was never validated when the payments were initially recorded on the LINUS.

TE/GE Division officials advised us that these cases would be validated while resolving the unpostable

Additional Management Actions Are Needed to Better Process and Safeguard Tax Exempt and Government Entities Division User Fee Payments

conditions.⁸ These officials further advised us that the LINUS EIN information is updated to reflect the correct EIN information only when the EIN information on the EDS is validated to the IRS Masterfile tax account information⁹ recorded for these taxpayers. Our analysis of the EDS EIN information that did not match that on the LINUS indicates that unpostable cases were not generated for some of the 314 cases.

- Thirty-two user fee payments were never controlled on the LINUS because the payments posted on the user fee control system that the LINUS replaced. This information was never transferred to the LINUS because TE/GE Division management did not ensure that all user fee payment information was successfully transferred to the LINUS.
- Twenty-four user fee payments were processed to the HQ EP/EO system, which is used to control user fee payments for private letter rulings. TE/GE Division management advised us that all user fee payments submitted for determination action should be posted onto the LINUS.
- Eleven user fee applicants were requested to provide a copy of the cancelled check to show proof of payment before being issued a determination letter. The initial payment information was never recorded on the LINUS.
- Ten case files contained documentation that a user fee payment had been submitted. However, we were unable to verify these payments because the payments were never controlled on the LINUS.

⁸ The validation process is to work unpostable cases that are generated when the EDS information does not match the IRS Masterfile account information.

⁹ The IRS Masterfile tax account information is a tax record on magnetic storage in the Martinsburg Computing Center in West Virginia.

Additional Management Actions Are Needed to Better Process and Safeguard Tax Exempt and Government Entities Division User Fee Payments

- We were unable to locate four case files, and the user fee payment information was never established on the LINUS.
- Two case files documented that the user fee payments were lost. The applicants were given credit for the payments without providing proof of their payments being made. The user fee payments were never posted onto the LINUS.

The above cases where we could not locate appropriate documentation to verify the receipt of user fee payments will be referred to the Treasury Inspector General for Tax Administration Office of Investigations staff for their review.

Recommendation

The Commissioner, TE/GE Division, should:

7. Develop appropriate procedures that will require the validation of user fee payment information maintained on the LINUS and take appropriate action to resolve any erroneous data. Additional actions should also be taken to ensure that the EDS replacement system would properly validate user fee payment information.

Management's Response: The TE/GE Division will validate user fee payment information on the LINUS and take appropriate action to resolve any errors created by incorrect data. Further, the TE/GE Division will establish processes to ensure that all user fee payments are properly validated at the time they are received at the CSPC. In addition, the EDS replacement system will provide additional controls by validating user fee information processed on the replacement system against the user fee information on the LINUS.

Additional Management Actions Are Needed to Better Process and Safeguard Tax Exempt and Government Entities Division User Fee Payments

User fee payments received at field offices are not always properly safeguarded

TE/GE Division management has not ensured that all user fee payments received at its field office locations are adequately safeguarded.

TE/GE Division management has not ensured that all user fee payments received at its field office locations are adequately safeguarded. Six of the 12 field offices sampled stored user fee payments in employee folders that are accessible to other employees. Also, many determination specialists work at home and process the remittances only once or twice a week.

The IRS Security Handbook requires that employees store remittances in a locked container such as lockable desks or file cabinets. However, the TE/GE Division procedures do not specifically require that user fees be stored in locked containers during duty hours.

Because these remittances are being stored in an unsecured environment when received, the risk of loss or stolen remittances is increased.

Because these remittances are being stored in an unsecured environment when received, the risk of lost or stolen remittances is increased.

Recommendation

The Commissioner, TE/GE Division, should:

8. Establish effective procedures to ensure that user fee payments received at the TE/GE Division field offices are properly safeguarded.

Management's Response: The TE/GE Division has re-emphasized to its employees the need to properly safeguard user fee payments and to comply with the requirement of the IRS Security Handbook to keep user fees in locked containers during both duty and non-duty hours.

User fee payments transmitted to the CSPC from field offices are not properly controlled

TE/GE Division procedures instruct field offices to use specific document transmittal forms to ship documents to the IRS service centers. These procedures require specific identifying information be recorded on the

Additional Management Actions Are Needed to Better Process and Safeguard Tax Exempt and Government Entities Division User Fee Payments

Our review identified missing payment data on the transmittals used to forward the payments to the CSPC Manual Deposit Unit.

Transmittal Document (Form 3210),¹⁰ which is designed to control the individual documents and is widely used by the IRS to monitor the mailing of sensitive materials.

We obtained and reviewed all 169 transmittals submitted during July 2000 by all the 39 field offices that process determination letter requests. Our analysis showed that all required identifying information was not entered on 44 transmittals used to forward the payments to the CSPC Manual Deposit Unit. For example, 21 transmittals did not identify either the customers or their related payment information, and 23 transmittals did not provide any information to identify the payments.

Because the TE/GE Division has not established a process for reviewing the transmittal documents, management was not aware that the transmittal documents were improperly used. The inability to verify the transmission of user fee payment information could result in theft or misapplied payments.

Recommendation

The Commissioner, TE/GE Division, should:

9. Ensure that established IRS procedures are followed when Forms 3210 are used to control the transfer of documents between offices.

Management's Response: The TE/GE Division has re-emphasized to employees the need to properly fill out Form 3210 when transferring user fee payments from field offices to the CSPC and has asked the CSPC to inform the TE/GE Division when employees do not comply.

¹⁰ Form 3210 is a control sheet that provides specific identifying data for the document(s) submitted.

Additional Management Actions Are Needed to Better Process and Safeguard Tax Exempt and Government Entities Division User Fee Payments

Conclusion

Additional managerial actions are needed to minimize the risks associated with processing TE/GE Division customers' user fee payments. Specifically, the TE/GE Division has not ensured that user fee payments are timely deposited and underpayment conditions are not adequately resolved. Also, customers who overpay their user fees are not issued timely refunds. In addition, user fee payment data are not properly validated and safeguarded. Without taking additional management actions, the TE/GE Division increases its risk that funds may be lost or misappropriated and customers may not be provided quality customer service.

Additional Management Actions Are Needed to Better Process and Safeguard Tax Exempt and Government Entities Division User Fee Payments

Appendix I

Detailed Objective, Scope, and Methodology

The objective of this audit was to evaluate the effectiveness of the Tax Exempt and Government Entities (TE/GE) Division's efforts to process and safeguard user fee payment information. Specifically, we:

- I. Determined whether user fees are appropriately and timely deposited. We:
 - A. Performed walk-through visitations in the TE/GE Division Headquarters Office, Cincinnati Submission Processing Center (CSPC) and selected a judgmental sample of 12 field offices that receive user fee payments when processing customer applications and evaluated:
 1. Controls over the receipt of user fee payments.
 2. Controls over the input of user fee payment information on the automated user fee systems.
 3. Controls over the transmittal of user payments from field groups to the centralized user fee group in Cincinnati.
 4. Controls over the deposit of user fee payments at the CSPC.
 5. Controls to ensure that the user fee payments processed by the TE/GE Division's automated systems are accurately posted to the Internal Revenue Service general ledger accounts.
 - B. Tested the controls identified in objective I.A. above by obtaining a computer extract of available user fee payment information for Fiscal Year (FY) 1999 and the first 6 months of FY 2000 to:
 1. Verify the accuracy and reliability of the data by matching the first 6 months of FY 2000 Letter Information Network User System (LINUS) payment data to the CSPC deposit reports.
 2. Determine whether the FY 1999 and first 6 months of FY 2000 user fee payments were timely deposited.
 3. Determine if user fee payments are timely transmitted to the CSPC Manual Deposit Unit.
 - C. Determined if all user fees are properly recorded. We:
 1. Performed a computer analysis of Employee Plans and Exempt Organizations Determination System closed case information recorded in

Additional Management Actions Are Needed to Better Process and Safeguard Tax Exempt and Government Entities Division User Fee Payments

the second quarter of FY 2000 and identified 21,496 closed cases with user fee payment requirements.

2. Computed the minimal user fee payment requirement to issue the determination letter for each case selected in objective I.C.1.
3. Extracted user fee payment information from the LINUS database.
4. Performed a computer match of the files identified in objectives I.C.1. and I.C.3. to identify cases where the user fee liability was greater than the payment amount on the LINUS.

II. Determined if user fees are appropriately and timely refunded. We:

- A. Interviewed the 12 group managers assigned to the offices selected for objective I.A. to evaluate the procedures and controls used for ensuring user fee overpayments are timely resolved. We:
 1. Evaluated whether the technical screeners are reviewing the cases to determine if the applicant overpaid the user fees.
 2. Determined who has authority to approve user fee refunds and obtained delegation orders.
 3. Interviewed the TE/GE employees that approve the user fee refunds and evaluated the procedures used to review the user fee refunds to ensure the refund is appropriate and accurate.
- B. Identified and evaluated the controls established by the CSPC to ensure that refunds of user fee overpayments are appropriate and timely issued to the applicants.
- C. Used simple Rangoon number selection techniques to select 54 user fee refunds from a list of CSPC journal entries that were posted during the first 6 months of FY 2000 and determined:
 1. Whether the refund was properly approved.
 2. Whether the user fee amounts were paid.
 3. The amount of time taken to issue the refund.
 4. Whether the refund was sent to the appropriate address.
- D. Evaluated the LINUS extract to identify potentially overpaid user fees that had not been previously refunded.

III. Determined if physical security controls over processing user fees are adequate in the offices selected for objective I.A. We:

Additional Management Actions Are Needed to Better Process and Safeguard Tax Exempt and Government Entities Division User Fee Payments

- A. Evaluated whether the user fee payments were adequately safeguarded in locked containers or in a secured area.
- B. Evaluated controls established to ensure proper separation of duties. We:
 - 1. Evaluated whether the individual approving the user fee refunds had the ability to edit or enter information on the automated user fee systems.
 - 2. Evaluated whether the individuals requesting additional payments are receiving the payments directly from the applicants.
- C. Obtained and reviewed all 169 transmittals submitted by the field office to the CSPC during July 2000 and evaluated the adequacy and completeness of the information recorded on the transmittal documents.

**Additional Management Actions Are Needed to Better Process and Safeguard Tax
Exempt and Government Entities Division User Fee Payments**

Appendix II

Major Contributors to This Report

Maurice S. Moody, Assistant Inspector General for Audit (Headquarters Operations and
Exempt Organizations Programs)

Joe Edwards, Director

Michael Levi, Audit Manager

Robert Nicely, Senior Auditor

Michael Van Nevel, Senior Auditor

Steve Bohrer, Auditor

Marjorie Stephenson, Auditor

**Additional Management Actions Are Needed to Better Process and Safeguard Tax
Exempt and Government Entities Division User Fee Payments**

Appendix III

Report Distribution List

Commissioner N:C
Deputy Commissioner, Tax Exempt and Government Entities Division T
Chief Counsel CC
Director, Business Systems Planning T:BSP
Director, Employee Plans T:EP
Director, Employee Plans Rulings and Agreements T:EP:RA
Director, Exempt Organizations T:EO
Director, Exempt Organizations Rulings and Agreements T:EO:RA
Director, Legislative Affairs CL:LA
Director, Office of Program Evaluation and Risk Analysis N:ADC:R:O
Manager, Employee Plans Determinations T:EP:RA:D
Manager, Exempt Organizations Determinations T:EO:RA:D
National Taxpayer Advocate TA
Office of Management Controls N:CFO:F:M
Audit Liaison, Tax Exempt and Government Entities Division T

Additional Management Actions Are Needed to Better Process and Safeguard Tax Exempt and Government Entities Division User Fee Payments

Appendix IV

Outcome Measures

This appendix presents detailed information on the measurable impact that our recommended corrective actions will have on tax administration. These benefits will be incorporated into our Semiannual Report to the Congress.

Type and Value of Outcome Measure:

- Cost Savings – Potential; 18,661 user fee payments totaling \$6.7 million not deposited within 2 business days. These late deposit actions cost the government approximately \$6,493 in lost revenue (see page 3).

Methodology Used to Measure the Reported Benefit:

We performed an analysis of user fee payment deposit actions conducted at the Cincinnati Submission Processing Center (CSPC) between January 1 and March 31, 2000. The 18,661 user fee payments totaling \$6.7 million were individually divided by 365 days and then multiplied by the number of days that the CSPC exceeded 48 hours. The result obtained for each payment was then multiplied by the Monthly Federal Funds Rate established at the time the user fee payment was received at the CSPC.

Type and Value of Outcome Measure:

- Increased Revenue – Potential; \$4,050. Nine determination letters were issued by the Tax Exempt and Government Entities (TE/GE) Division to customers, even though their personal checks were dishonored. The customers were notified that their checks had not cleared and were requested to resubmit the proper user fee amount. The customers did not comply with the request and no follow-up actions were taken to collect the delinquent amount (see page 3).

Methodology Used to Measure the Reported Benefit:

We performed a computer analysis of closed determination cases recorded on the Employee Plans and Exempt Organizations Determination System (EDS) between January 1 and March 31, 2000, to identify the issuance of determination letters when customers do not pay the required user fee amount.

Additional Management Actions Are Needed to Better Process and Safeguard Tax Exempt and Government Entities Division User Fee Payments

Type and Value of Outcome Measure:

- Taxpayer Rights and Entitlements – The TE/GE Division advised us that 31 taxpayers with collective overpayment amounts totaling \$2,675 should be refunded (page 11).

Methodology Used to Measure the Reported Benefit:

We performed a computer match of Fiscal Year 2000 EDS closed determination case data with user fee payment information recorded on the Letter Information Network User System to identify 47 potential overpayment conditions. These cases were referred to the TE/GE Division management to determine if the overpayment amount should be refunded to the taxpayers.

Additional Management Actions Are Needed to Better Process and Safeguard Tax Exempt and Government Entities Division User Fee Payments

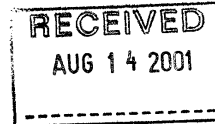
Appendix V

Management's Response to the Draft Report

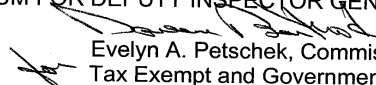


DEPARTMENT OF THE TREASURY
INTERNAL REVENUE SERVICE
WASHINGTON, D.C. 20224

AUG 9 2001



MEMORANDUM FOR DEPUTY INSPECTOR GENERAL FOR AUDIT

FROM:  Evelyn A. Petschek, Commissioner
Tax Exempt and Government Entities Division

SUBJECT: Response to Draft Audit Report – Additional
Management Actions Are Needed to
Better Process and Safeguard Tax Exempt and Government
Entities Division User Fee Payments (Audit No. 200010020)

Thank you for the opportunity to respond to your draft report on the receipt, processing and safeguarding of user fee payments.

Your report is timely because the Tax Exempt and Government Entities Division (TE/GE) is redesigning our determination programs computer systems. Among other things, the redesign will allow us to put additional controls on the systems we use to control user fee payments. Your observations will help our team as it designs and implements the new systems.

We take the responsibility to correctly receive and account for user fee payments seriously. Your report will help us do that more effectively, and we appreciate your recommendations. I noted with satisfaction that your report found no evidence of misdirection or misappropriation of user fee payments.

I also noted that the Small Business/Self Employed (SB/SE) organization is principally responsible for processing user fees in the Cincinnati Submissions Processing Center (CSPC). SB/SE operates the CSPC, which receives and processes user fees submitted with the applications for Employee Plans and Exempt Organizations determination letters. Although TE/GE does not control the work at CSPC, we have established a productive working relationship with CSPC that benefits our customers.

Our comments on the specific recommendations in the report are as follows:

IDENTITY OF RECOMMENDATION 1

Establish procedures for recording payment-receive-date information on the Letter Information Network User System (LINUS) that documents when user fee payments are initially received by field offices other than the CSPC, and require the Quality Assurances

Additional Management Actions Are Needed to Better Process and Safeguard Tax Exempt and Government Entities Division User Fee Payments

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organization to monitor the timeliness of deposit actions when processing these payments.

ASSESSMENT OF CAUSES

TIGTA found that determination specialists in the field did not have instructions to provide CSPC with the date a user fee arrived in the field. This made it difficult to evaluate how long it took to deposit these fees.

CORRECTIVE ACTIONS

As part of the redesign of its determinations program computer system (the EDS replacement system), TE/GE plans to change its procedures so applicants for determinations will submit correspondence and checks directly to the CSPC. This will eliminate the problem TIGTA identified. In the meantime, we will require employees in field offices to inform CSPC of the date a user fee arrived at the field office. Until we complete the EDS replacement system, the TE/GE user fee manager will monitor the timeliness of user fee transmissions from the field on a monthly basis.

IMPLEMENTATION DATE

November 1, 2002

RESPONSIBLE OFFICIALS

Manager, EO Determinations

CORRECTIVE ACTION MONITORING PLAN

We will give the instructions we send employees on documenting receipt of user fee payments to the Deputy Commissioner, TE/GE.

IDENTITY OF RECOMMENDATION 2

Monitor the CSPC's compliance with the Service Level Agreement (SLA) deposit provisions and establish an effective process to notify SB/SE Operating Division management when the CSPC processing support actions are performed in an unsatisfactory manner.

ASSESSMENT OF CAUSES

TIGTA found that the CSPC has not, in all cases, deposited user fees attached to determination applications within the time period specified by Internal Revenue Manual (IRM).

CORRECTIVE ACTIONS

Although SB/SE, rather than TE/GE, is responsible for properly depositing checks at the CSPC, TE/GE and SB/SE have worked closely together over the past several months to resolve this problem. In mid-July 2001, CSPC implemented a new process for the receipt and processing of user fees. Now, CSPC removes the user fee from the determination letter application when the application arrives and immediately deposits it. This happens before the application itself is processed, not after. In addition, CSPC now

Additional Management Actions Are Needed to Better Process and Safeguard Tax Exempt and Government Entities Division User Fee Payments

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prepares a daily report that shows whether checks are deposited timely. CSPC sends a copy of this report to TE/GE. If the report shows that CSPC is not depositing checks within required timeframes, TE/GE will raise the issue with SB/SE.

IMPLEMENTATION DATE

Completed.

RESPONSIBLE OFFICIAL

Not applicable.

CORRECTIVE ACTION MONITORING PLAN

Not applicable.

IDENTITY OF RECOMMENDATION 3

Re-emphasize current procedures that require that customers' personal checks be honored before determination letters are issued.

ASSESSMENT OF CAUSES

TIGTA found 10 instances between January 1 and March 31, 2000, where we issued determination letters to taxpayers whose user fee checks were dishonored.

CORRECTIVE ACTIONS

Since TIGTA conducted its review, TE/GE transferred responsibility for collecting bad checks submitted by determination letter applicants from Customer Account Services (CAS) to the TE/GE Adjustments Unit. TE/GE made the transfer in April 2000. Since the transfer, we know of no cases in which we have been unable to collect full payment from the taxpayer.

Further, TE/GE assigned to the Adjustments Unit the responsibility to track cases involving dishonored checks and to work with determination specialists to ensure we receive the payment before they issue a determination letter. TE/GE has also asked the CSPC Accounting Branch to notify us immediately when a check is dishonored, rather than wait to notify us until the check has been dishonored twice. In addition, TE/GE recently re-emphasized to its employees that they must not issue determination letters until the customer's check is honored.

IMPLEMENTATION DATES

Completed

RESPONSIBLE OFFICIALS

Not applicable.

CORRECTIVE ACTION MONITORING PLAN

Not applicable.

Additional Management Actions Are Needed to Better Process and Safeguard Tax Exempt and Government Entities Division User Fee Payments

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IDENTITY OF RECOMMENDATION 4

Ensure the LINUS is updated to provide necessary information for identifying determination letters that are issued without the collection of the correct user fee amount, and ensure that the Employee Plans and Exempt Organizations Determination System (EDS) replacement system will prevent the issuance of determination letters until all user fees are fully paid.

ASSESSMENT OF CAUSES

TIGTA found that in cases where we issued a determination letter before we received the required user fee, the determination specialists were timely notified that the checks were dishonored. However, the determination specialists did not initiate the necessary actions to stop the issuance of the determination letter.

We believe that updating LINUS will not resolve the identified problem. Moreover, LINUS is not available to determination specialists in the field, and it would be very costly to extend it to them. We believe we cannot justify such a cost because of the ongoing redesign of EDS that will resolve the problem in less than a year.

We believe the solution to this problem is to strongly reinforce the current requirement that determination specialists not issue determination letters until the applicant has paid the user fee. We have recently done this.

CORRECTIVE ACTIONS

TE/GE has reinforced the current requirement that determination specialists not issue determination letters until the applicant has fully paid the user fee.

As part of the redesign of EDS, we will include a feature to prevent issuing determination letters before taxpayers pay all user fees. As an additional control, we also will add a feature that will generate a management report to identify any instances where we issue a determination letter without payment of the user fee.

IMPLEMENTATION DATE

July 1, 2002

RESPONSIBLE OFFICIALS

Director, Business Systems Planning

CORRECTIVE ACTION MONITORING PLAN

The team will report the redesign of EDS to the Deputy Commissioner, TE/GE.

IDENTITY OF RECOMMENDATION 5

Establish specific processing standards for refunds after TE/GE identifies an overpayment condition, and conduct periodic management reviews to determine whether the processing standards are being met.

Additional Management Actions Are Needed to Better Process and Safeguard Tax Exempt and Government Entities Division User Fee Payments

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ASSESSMENT OF CAUSES

Although TE/GE has adopted a requirement that refunds be processed as soon as possible, no standard currently establishes a specific time period for refunds, and no process exists to expedite refunds.

TE/GE currently conducts regular reviews on all aspects of the determinations process. This process includes a review of refunds. As we develop standards for this process, we automatically incorporate them into the review process.

CORRECTIVE ACTIONS

TE/GE is currently revising the Internal Revenue Manual (IRM) for determination letter processing. This includes processing refunds. Our revision of the IRM will establish specific processing standards for refunds. TE/GE will incorporate these standards into its ongoing review process.

IMPLEMENTATION DATE

July 1, 2002

RESPONSIBLE OFFICIALS

Directors, EP and EO Rulings and Agreements

CORRECTIVE ACTION MONITORING PLAN

The Director, EO Rulings and Agreements will present the processing standards to the Deputy Commissioner, TE/GE for approval.

IDENTITY OF RECOMMENDATION 6

Enhance the LINUS system to maintain user fee account information that will identify overpayment conditions and initiate actions to timely resolve these overpayments.

ASSESSMENT OF CAUSES

The LINUS does not provide a reliable method to identify overpayments.

TE/GE is addressing the problem of identifying overpayments as part of the redesign of EDS, and we believe implementation of the new determinations system will resolve it. Separately, TE/GE is analyzing TIGTA's list of possible overpayments and making adjustments, where warranted.

CORRECTIVE ACTIONS

TE/GE will complete its analysis of TIGTA's list of possible overpayments and will make all required adjustments.

As part of the redesign of EDS, TE/GE will address ways to timely identify and resolve all potential overpayments. As an additional control, TE/GE will include a feature that will generate management reports identifying potential overpayments.

Additional Management Actions Are Needed to Better Process and Safeguard Tax Exempt and Government Entities Division User Fee Payments

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IMPLEMENTATION DATE
July 1, 2002

RESPONSIBLE OFFICIALS
Director, Business Systems Planning

CORRECTIVE ACTION MONITORING PLAN
The Director, Business Systems Planning will report the redesign of EDS to the Deputy Commissioner, TE/GE.

IDENTITY OF RECOMMENDATION 7
Develop appropriate procedures that will require the validation of user fee payment information maintained on the LINUS and take appropriate action to resolve any erroneous data. Additional actions should also be taken to ensure that the EDS replacement system would properly validate user fee payment information.

ASSESSMENT OF CAUSES
TIGTA found that current controls have not ensured that all user fee payment information on LINUS is valid.

CORRECTIVE ACTIONS
We will validate user fee payment information on LINUS, and we will take appropriate action to resolve any errors created by incorrect data. Further, we will establish processes to ensure that we properly validate all user fee payments at the time the CSPC receives them. In addition, the EDS replacement system will provide additional controls by validating user fee information in the replacement system against the user fee information on LINUS.

IMPLEMENTATION DATE
July 1, 2002

RESPONSIBLE OFFICIALS
Director, Business Systems Planning

CORRECTIVE ACTION MONITORING PLAN
The Director, Business Systems Planning will report the validation of LINUS and the redesign of EDS to the Deputy Commissioner, TE/GE

IDENTITY OF RECOMMENDATION 8
Establish effective procedures to ensure that user fee payments received at the TE/GE Division field offices are properly safeguarded.

Additional Management Actions Are Needed to Better Process and Safeguard Tax Exempt and Government Entities Division User Fee Payments

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ASSESSMENT OF CAUSES

Employees at some field offices have stored some user fee payments in an unsecured location. Further, TE/GE procedures do not specifically require employees to store user fees in locked containers during duty hours.

CORRECTIVE ACTIONS

The redesign of EDS will require customers to send all applications and correspondence, including checks, directly to the CSPC. The implementation of this system will eliminate the problem TIGTA has identified. In the meantime, TE/GE has re-emphasized to its employees the need to properly safeguard user fee payments and to comply with the requirement of the IRS Security Handbook to keep user fees in locked containers during both duty hours and non-duty hours.

IMPLEMENTATION DATE

Completed

RESPONSIBLE OFFICIALS

Not applicable

CORRECTIVE ACTION MONITORING PLAN

Not applicable

IDENTITY OF RECOMMENDATION 9

Ensure that established IRS procedures are followed when Forms 3210 are used to control the transfer of documentation between offices.

ASSESSMENT OF CAUSES

In some instances, TE/GE employees are not completely filling out Form 3210 when transmitting user fee payments from field offices to the CSPC.

The EDS replacement system will require customers to send all applications and correspondence, including checks, to the CSPC. The implementation of this system will eliminate the problem TIGTA has identified.

CORRECTIVE ACTIONS

TE/GE has re-emphasized to employees the need to properly fill out Form 3210 when transferring user fee payments from field offices to the CSPC and has asked CSPC to tell us if our employees do not do this.

IMPLEMENTATION DATE

Completed.

RESPONSIBLE OFFICIALS

Not applicable.

Additional Management Actions Are Needed to Better Process and Safeguard Tax Exempt and Government Entities Division User Fee Payments

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CORRECTIVE ACTION MONITORING PLAN
Not applicable.

If you have any questions or need additional information, please call me at (202) 283-2500, or a member of your staff may contact Mike Daly at 283-8885.